

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Hagar Township</u>	County Berrien
Audit Date March 31, 2006	Opinion Date May 23, 2006	Date Accountant Report Submitted To State: July 17, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 511 Renaissance Drive Suite 120	City St. Joseph	State MI	ZIP 49085
Accountant Signature <i>Plante & Moran, PLLC</i>			

Hagar Township, Michigan

**Financial Report
with Supplemental Information
March 31, 2006**

Hagar Township

Contents

Report Letter	I
Management's Discussion and Analysis	2-6
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	9
Statement of Revenue, Expenditures, and Changes in Fund Balance	10
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	11
Proprietary Funds:	
Statement of Net Assets	12
Statement of Revenue, Expenses, and Changes in Fund Net Assets	13
Statement of Cash Flows	14
Fiduciary Fund - Statement of Assets and Liabilities	15
Notes to Financial Statements	16-24
Required Supplemental Information	25
Budgetary Comparison Schedule - General Fund	26-27
Note to Supplemental Information	28



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Independent Auditor's Report

To the Members of the Township Board
Hagar Township, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the discretely presented component unit of Hagar Township, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hagar Township, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the discretely presented component unit of Hagar Township, Michigan at March 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

May 23, 2006

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Hagar Township

Management's Discussion and Analysis

Our discussion and analysis of Hagar Township, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2006. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2006:

- State-shared revenue was increased by the State of Michigan by approximately \$4,700 this year.
- Total net assets related to the Township's governmental activities increased by approximately \$127,000, due to the success of fire property tax renewals.
- The Downtown Development Authority spent approximately \$866,000 on construction of a new fire station. The building was completed in summer 2006 and will be leased to the Coloma-Hagar Joint Fire Board. Included in the \$866,000 of cost was land valued at \$140,000, which was donated by a Township resident.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Hagar Township

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a comparative, condensed format, the net assets as of March 31, 2006 and 2005:

	Governmental Activities		Business-type Activities		Total		Component Unit	
	2006	2005	2006	2005	2006	2005	2006	2005
Assets								
Current assets	\$ 2,136,121	\$ 2,003,933	\$ 58,220	\$ 54,970	\$ 2,194,341	\$ 2,058,903	\$ 164,101	\$ 604,621
Noncurrent assets	813,117	845,696	34,097	35,181	847,214	880,877	866,188	-
Total assets	2,949,238	2,849,629	92,317	90,151	3,041,555	2,939,780	1,030,289	604,621
Liabilities - Current liabilities	36,055	30,793	-	-	36,055	30,793	176,266	-
Net Assets (Deficit)								
Invested in capital assets	553,829	566,396	34,097	35,181	587,926	601,577	866,188	-
Restricted	291,996	266,343	-	-	291,996	266,343	28,900	28,900
Unrestricted	2,067,358	1,986,097	58,220	54,970	2,125,578	2,041,067	(41,065)	575,721
Total net assets (deficit)	<u>\$ 2,913,183</u>	<u>\$ 2,818,836</u>	<u>\$ 92,317</u>	<u>\$ 90,151</u>	<u>\$ 3,005,500</u>	<u>\$ 2,908,987</u>	<u>\$ 854,023</u>	<u>\$ 604,621</u>

The Township's governmental activities net assets increased almost 4 percent from a year ago - increasing from approximately \$2,819,000 to \$2,931,000.

Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations. The current level of unrestricted net assets for our governmental activities stands at \$2,067,000, or about 380 percent of expenditures.

Hagar Township

Management's Discussion and Analysis (Continued)

The following table shows, in a comparative, condensed format, the changes in net assets during the current year:

	Governmental Activities		Business-type Activities		Total		Component Unit	
	2006	2005	2006	2005	2006	2005	2006	2005
Revenue								
Program revenue - Charges for services	\$ 71,046	\$ 79,871	\$ 1,838	\$ 4,762	\$ 72,884	\$ 84,633	\$ -	\$ -
General revenue:								
Property taxes	229,336	99,042	-	-	229,336	99,042	65,744	50,977
State-shared revenue	267,721	263,011	-	-	267,721	263,011	-	-
Unrestricted investment earnings	46,883	5,700	1,720	633	48,603	6,333	8,877	5,594
Local sources	-	5,000	-	-	-	5,000	-	-
Donations from private sources	-	-	-	-	-	-	171,800	-
Miscellaneous	18,999	16,760	-	-	18,999	16,760	-	-
Total revenue	633,985	469,384	3,558	5,395	637,543	474,779	246,421	56,571
Program Expenses								
General government	265,452	318,974	-	-	265,452	318,974	-	-
Public safety	210,159	211,830	-	-	210,159	211,830	-	-
Public works	9,982	10,216	-	-	9,982	10,216	-	-
Highways and streets	26,104	69,395	-	-	26,104	69,395	-	-
Recreation and health	27,941	29,124	-	-	27,941	29,124	-	-
Water	-	-	1,392	2,177	1,392	2,177	-	-
Total program expenses	539,638	639,539	1,392	2,177	541,030	641,716	-	-
Change in Net Assets	\$ 94,347	\$ (170,155)	\$ 2,166	\$ 3,218	\$ 96,513	\$ (166,937)	\$ 246,421	\$ 56,571

Governmental Activities

The Township's total governmental revenue increased by approximately \$165,000, due primarily to the success of the fire property tax renewals. Total governmental revenue increased approximately 34 percent compared to revenues reported in 2005.

Hagar Township

Management's Discussion and Analysis (Continued)

Business-type Activities

The Township's business-type activity consists of the Water Fund. We provide water services to some residents through a contract with the City of Benton Harbor.

Component Unit

The Township's component unit consists of a Downtown Development Authority (DDA). The DDA was created to stabilize conditions for those residing in the Riverside area, assist businesses in locating or expanding in the area, and to improve the quality of life.

The Township's Funds

Our analysis of the Township's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township's major funds for 2006 include the General Fund and the Water Fund.

General Fund expenses decreased by about \$102,000 during the year. Decreases in expenditures in the current year compared to prior year resulted primarily from fire department litigation costs in the prior year.

The General Fund pays for most of the Township's governmental services. The most significant are public safety expenditures, which incurred expenses of approximately \$190,000 in 2006. These services had been supported by a special fire millage. The renewal, which was defeated by Township residents in 2005, was successfully passed in 2006.

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account events during the year. The most significant changes were to decrease general administration expenditures when the Township determined that a contingency was no longer needed, and decrease highways and streets expenditures when a certain road improvement was deemed not to have occurred by year end. Township recreation and health departments were over budget due to sheriff park patrol costs that were unbudgeted for. Total expenditures were \$30,000 under budget. Total revenues were lower than anticipated by almost \$20,000. The General Fund's fund balance increased to \$2,100,066 at March 31, 2006 from \$1,973,140 a year ago.

Capital Asset and Debt Administration

During 2006, no significant capital assets were purchased, with the exception of donated voting equipment. Also during 2006, the Township was in the process of building its own public safety building, which will be leased to the fire department. Total fire station expenditures incurred with DDA funds in 2006 were approximately \$870,000.

Hagar Township

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Revenues are affected dramatically by the success of the millage renewal for operating costs. The fire department millage has been renewed for the 2006 tax collection year and is projected to provide adequate funding for anticipated expenses for the coming year.

Revenue-sharing funds from the State have stayed reasonably stable. Treasury department revenue-sharing projections are reflected in the budget for the 2006-2007 fiscal year.

Expense projections have been allowed for the continuing improvement of Lynch Road. Current budgeting allows for this project to continue to be financed in 2007 with a reasonable surplus for contingencies remaining.

Hagar Township has just finished its second year with a deficit in the Downtown Development Authority Fund. Many factors came together to contribute to the shortfall but 2007 is poised to return the Township to a normal financial balance allowing for positive cash flow and continued stability for the foreseeable future.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Hagar Township

Statement of Net Assets March 31, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Assets				
Cash (Note 3)	\$ 558,263	\$ 7,885	\$ 566,148	\$ 126,939
Investments (Note 3)	1,560,836	50,044	1,610,880	-
Taxes receivable	17,022	291	17,313	4,530
Other assets	-	-	-	32,632
Interest in joint venture (Note 1)	259,288	-	259,288	-
Capital assets - Net (Note 4):				
Assets not subject to depreciation	255,773	-	255,773	866,188
Assets subject to depreciation	298,056	34,097	332,153	-
Total assets	2,949,238	92,317	3,041,555	1,030,289
Liabilities				
Accounts payable	27,546	-	27,546	176,266
Accrued and other liabilities	8,509	-	8,509	-
Total liabilities	36,055	-	36,055	176,266
Net Assets (Deficit)				
Invested in capital assets	553,829	34,097	587,926	866,188
Restricted for fire operations	117,140	-	117,140	-
Restricted for ambulance operations	121,539	-	121,539	-
Restricted for Technisand contract	53,317	-	53,317	-
Restricted for drain project	-	-	-	28,900
Unrestricted (deficit)	2,067,358	58,220	2,125,578	(41,065)
Total net assets	<u>\$ 2,913,183</u>	<u>\$ 92,317</u>	<u>\$ 3,005,500</u>	<u>\$ 854,023</u>

Hagar Township

Statement of Activities Year Ended March 31, 2006

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Primary Government					
	Expenses	Charges for Services	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Primary government:						
Governmental activities:						
General government	\$ 265,452	\$ 71,046	\$ (194,406)	\$ -	\$ (194,406)	\$ -
Public safety	210,159	-	(210,159)	-	(210,159)	-
Public works	9,982	-	(9,982)	-	(9,982)	-
Highways and streets	26,104	-	(26,104)	-	(26,104)	-
Recreation and health	27,941	-	(27,941)	-	(27,941)	-
Total governmental activities	539,638	71,046	(468,592)	-	(468,592)	-
Business-type activities - Water	1,392	1,838	-	446	446	-
Total primary government	<u>\$ 541,030</u>	<u>\$ 72,884</u>	(468,592)	446	(468,146)	-
Component unit - Downtown Development Authority	<u>\$ 1,605</u>	<u>\$ -</u>	-	-	-	(1,605)
General revenues:						
Property taxes			229,336	-	229,336	65,744
State-shared revenues			267,721	-	267,721	-
Unrestricted investment earnings			46,883	1,720	48,603	8,877
Donations from private sources			-	-	-	171,800
Miscellaneous			18,999	-	18,999	4,586
Total general revenues			562,939	1,720	564,659	251,007
Change in Net Assets			94,347	2,166	96,513	249,402
Net Assets - Beginning of year			2,818,836	90,151	2,908,987	604,621
Net Assets - End of year			\$ 2,913,183	\$ 92,317	\$ 3,005,500	\$ 854,023

Hagar Township, Michigan

Governmental Funds Balance Sheet March 31, 2006

	<u>General Fund</u>
Assets	
Cash (Note 3)	\$ 558,263
Investments (Note 3)	1,560,836
Taxes receivable	<u>17,022</u>
Total assets	<u>\$ 2,136,121</u>
Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 27,546
Accrued liabilities	<u>8,509</u>
Total liabilities	36,055
Fund Balances	
Reserved for fire operations	117,140
Reserved for ambulance operations	121,539
Reserved for Technisand contract	53,317
Unreserved:	
Designated for future sewer system	227,518
Designated for fire departmental capital expenditures	178,692
Designated for road improvements	193,747
Designated for township capital improvements	271,970
Undesignated	<u>936,143</u>
Total fund balances	<u>2,100,066</u>
Total liabilities and fund balances	<u>\$ 2,136,121</u>
Fund Balance - Total governmental funds	\$ 2,100,066
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	553,829
Interest in joint venture is not a financial resource and is not reported in the funds	<u>259,288</u>
Net assets of governmental activities	<u>\$ 2,913,183</u>

Hagar Township, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended March 31, 2006

	<u>General Fund</u>
Revenue	
Property taxes	\$ 229,336
Licenses and permits	71,046
State-shared revenues	267,721
Charges for services	417
Sale of Township assets, interest, and rent	46,883
Other	<u>18,582</u>
Total revenue	633,985
Expenditures - Current	
General government	261,543
Public safety	190,147
Public works	9,982
Highways and streets	26,104
Recreation and health	<u>19,283</u>
Total expenditures	<u>507,059</u>
Excess of Revenue Over Expenditures	126,926
Fund Balance - Beginning of year	<u>1,973,140</u>
Fund Balance - End of year	<u><u>\$ 2,100,066</u></u>

Hagar Township

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities Year Ended March 31, 2006

Net Change in Fund Balance - Total Governmental Funds	\$ 126,926
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Amounts reported for governmental activities in the statement of activities are different because:

Interest in joint venture not recorded in governmental funds:	
Decrease in equity interest	(20,012)
Contributions of equipment not recorded on governmental funds	9,600
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	<u>(22,167)</u>

Change in Net Assets of Governmental Activities	<u>\$ 94,347</u>
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Hagar Township

Proprietary Funds Statement of Net Assets March 31, 2006

	Enterprise Fund - Water Fund
Assets	
Current assets:	
Cash (Note 3)	\$ 7,885
Investments (Note 3)	50,044
Receivables - Net	<u>712</u>
Total current assets	58,641
Noncurrent assets - Capital assets (Note 4)	<u>34,097</u>
Total assets	92,738
Liabilities - Current liabilities - Other	<u>421</u>
Net Assets	
Invested in capital assets	34,097
Unrestricted	<u>58,220</u>
Total net assets	<u><u>\$ 92,317</u></u>

Hagar Township

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2006

	Enterprise - Water Fund
Operating Revenue - Charges for services	\$ 1,838
Operating Expenses	
Operation and maintenance	308
Depreciation	<u>1,084</u>
Total operating expenses	<u>1,392</u>
Operating Income	446
Nonoperating Revenue - Investment income	<u>1,720</u>
Net Income	2,166
Net Assets - Beginning of year	<u>90,151</u>
Net Assets - End of year	<u><u>\$ 92,317</u></u>

Hagar Township

Proprietary Funds Statement of Cash Flows Year Ended March 31, 2006

	Enterprise Fund - Water Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 1,838
Payments to suppliers	<u>(308)</u>
Net cash provided by operating activities	1,530
Cash Flows from Investing Activities	
Investment purchases	(1,634)
Interest received on investments	<u>1,720</u>
Net cash provided by investing activities	<u>86</u>
Net Increase in Cash	1,616
Cash - Beginning of year	<u>6,269</u>
Cash - End of year	<u><u>\$ 7,885</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 446
Adjustment to reconcile operating income to net cash from operating activities - Depreciation	<u>1,084</u>
Net cash provided by operating activities	<u><u>\$ 1,530</u></u>

During the year ended March 31, 2006, there were no noncash transactions.

Hagar Township

Fiduciary Fund Statement of Assets and Liabilities March 31, 2006

	<u>Agency Fund</u>
Assets - Cash	<u><u>\$ 41,649</u></u>
Liabilities - Due to other governmental units	<u><u>\$ 41,649</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of Hagar Township, Michigan (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The Township is governed by an elected five-member board. The accompanying financial statements present the Township and its component unit, an entity for which the Township is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

The Downtown Development Authority (the "Authority") was created to stabilize conditions for those residing in the Riverside area, assist businesses in locating or expanding in the area, and to improve the quality of life. The Authority's governing body, which consists of nine individuals, is appointed by the Township board. Any surplus funds existing at the Authority's termination vest to the Township.

Jointly Governed Organizations - The Township, along with Coloma Charter Township and the City of Coloma, is a member of the Coloma-Hagar Joint Fire Board. The fire board is governed by an administrative board of six members, appointed by the City and the Townships. The Township's equity interest in the fire board of \$259,288 is recorded in governmental activities in the government-wide financial statements. Complete financial statements for the fire board can be obtained from the City of Coloma mayor's office.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Water Fund - The Water Fund accounts for the activities of the water system.

Additionally, the Township reports the following fund types:

Fiduciary Funds

Agency Fund - The Agency Fund accounts for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement on results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2005 tax is levied and collectible on December 1, 2005 and is recognized as revenue in the year ended March 31, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the Township totaled \$127.6 million, on which taxes levied consisted of 0.6925 mills for operating purposes and 0.998 mills for fire services. This resulted in approximately \$88,000 for operations and \$128,000 for fire services.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	15 years
Buildings	40 years
Office equipment	7 years
Equipment	5 years
Transportation equipment	5 years
Water lines	50 years

Fund Equity - In the fund financial statements, the governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Hagar Township

Notes to Financial Statements March 31, 2006

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at March 31, 2005	\$ (49,219)
Current year building permit revenue	51,016
Related expenses - Direct costs	<u>(44,353)</u>
Shortfall at March 31, 2006	<u>\$ (42,556)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

Note 3 - Deposits and Investments (Continued)

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$509,589 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. At year end, the component unit had \$26,940 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name:

Type of Investment	Carrying Value	How Held
U.S. government or agency bond or notes	\$ 1,228,595	Counterparty
Commercial paper	113,943	Counterparty
Money market	268,342	Counterparty

Hagar Township

Notes to Financial Statements March 31, 2006

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Federal Home Loan Mortgage	\$ 785,247	1.7 years
Federal Home Loan Banks	378,531	1.6 years
Federal National Mortgage Association	64,817	42 days
Institutional government money market	268,342	43 days
Commercial paper	113,943	1.1 years

Concentration of Credit Risk - The Township places no limit on the amount invested in any one issuer. No more than 5 percent of the Township's investments are invested in any one issuer.

Hagar Township

Notes to Financial Statements March 31, 2006

Note 4 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance March 31, 2005	Additions	Disposals	Balance March 31, 2006
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 255,773	\$ -	\$ -	\$ 255,773
Capital assets being depreciated:				
Land improvements	129,863	-	-	129,863
Buildings	411,702	-	-	411,702
Office equipment	14,309	9,600	-	23,909
Equipment	109,816	-	-	109,816
Subtotal	665,690	9,600	-	675,290
Accumulated depreciation:				
Land improvements	28,310	8,658	-	36,968
Buildings	216,030	9,130	-	225,160
Office equipment	6,940	2,616	-	9,556
Equipment	103,787	1,763	-	105,550
Subtotal	355,067	22,167	-	377,234
Net capital assets being depreciated	310,623	(12,567)	-	298,056
Net capital assets	<u>\$ 566,396</u>	<u>\$ (12,567)</u>	<u>\$ -</u>	<u>\$ 553,829</u>
Business-type Activities				
Capital assets being depreciated:				
Water lines	\$ 54,222	\$ -	\$ -	\$ 54,222
Office equipment	10,801	-	(10,801)	-
Subtotal	65,023	-	(10,801)	54,222
Accumulated depreciation	29,842	1,084	(10,801)	20,125
Net capital assets being depreciated	<u>\$ 35,181</u>	<u>\$ (1,084)</u>	<u>\$ -</u>	<u>\$ 34,097</u>

Hagar Township

Notes to Financial Statements March 31, 2006

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 13,509
Recreation and health	<u>8,658</u>

Total governmental activities	<u>\$ 22,167</u>
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Business-type activities - Water	<u>\$ 1,084</u>
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During 2006, the Downtown Development Authority incurred \$866,188 in costs to construct a new public safety building. When the building is completed in fiscal 2007, it will be leased to the Coloma-Hagar Joint Fire Board. The public safety building was not complete at March 31, 2006; therefore, no depreciation expense was recorded.

Note 5 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts, errors and omissions, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 6 - Defined Contribution Retirement Plan

The Township provides pension benefits to all of its board members and hourly employees at least 18 years of age with 1,000 hours of service or more. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the Township board, the Township contributes 10 percent of employees' gross earnings. In accordance with these requirements, the Township contributed \$7,709. There were no employee contributions during fiscal 2006.

Required Supplemental Information

Hagar Township

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 213,000	\$ 213,366	\$ 229,336	\$ 15,970
Licenses and permits	47,274	60,465	71,046	10,581
State sources	275,136	275,914	267,721	(8,193)
Local sources	5,000	5,000	-	(5,000)
Charges for services	1,000	450	417	(33)
Interest income	39,000	44,117	46,883	2,766
Other revenue	30,000	54,244	18,582	(35,662)
Total revenue	610,410	653,556	633,985	(19,571)
Expenditures				
General government:				
Supervisor	12,775	12,775	12,775	-
Township board	7,500	8,150	8,000	150
Elections	7,000	1,595	1,595	-
Treasurer	11,200	11,200	11,200	-
Assessor	48,000	47,104	46,907	197
Clerk	12,000	12,000	12,000	-
Board of Review	1,100	777	777	-
Township Hall	45,000	61,839	34,480	27,359
Cemetery	14,000	10,488	10,488	-
General administration	185,535	127,999	123,321	4,678
Total general government	344,110	293,927	261,543	32,384
Public safety:				
Fire	97,000	111,322	113,468	(2,146)
Ambulance	17,000	15,885	15,885	-
Police	-	1,570	-	1,570
Building and mechanical inspector	46,500	48,903	47,795	1,108
Liquor inspector	1,300	1,326	1,326	-
Planning and zone board	7,500	6,575	7,087	(512)
Total public safety	169,300	185,581	185,561	20
Public works:				
Street lights	5,000	4,515	4,199	316
Drains	5,000	1,322	1,322	-
Spring/Fall cleanup	5,000	4,461	4,461	-
Total public works	15,000	10,298	9,982	316

Hagar Township

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Highways and streets	\$ 61,000	\$ 26,412	\$ 26,104	\$ 308
Recreation and health	21,000	17,718	19,283	(1,565)
Total expenditures	<u>610,410</u>	<u>533,936</u>	<u>502,473</u>	<u>31,463</u>
Excess of Revenue Over Expenditures	-	119,620	131,512	11,892
Other Financing Uses - Operating transfers out	<u>-</u>	<u>-</u>	<u>4,586</u>	<u>(4,586)</u>
Excess of Revenue Over Expenditures and Other Financing Uses	-	119,620	126,926	(7,306)
Fund Balance - Beginning of year	<u>1,973,140</u>	<u>1,973,140</u>	<u>1,973,140</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 1,973,140</u>	<u>\$ 2,092,760</u>	<u>\$ 2,100,066</u>	<u>\$ 7,306</u>

Hagar Township

Note to Required Supplemental Information March 31, 2006

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year end. The Township supervisor prepares the budget 30 to 60 days prior to year end after consulting with department heads. The budget is submitted to the board for approval in late March.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Encumbrance accounting is not employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Township incurred expenditures that were in excess of the amounts budgeted as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund - Other financing uses - Operating transfers out	\$ -	\$ 4,586

Operating transfers out represent a General Fund contribution for equipment in the new fire station being constructed by the Downtown Development Authority.

Deficit Unrestricted Net Assets - The component unit, Downtown Development Authority, has unrestricted net assets totaling \$41,065 at March 31, 2006. The deficit resulted from capital outlay expenditures paid from existing cash reserves. Although there was no reduction in the total net assets as the result of these capital outlay expenditures, the components of net assets reflect a greater amount invested in capital assets, indicating the long-term investment in capital assets in exchange for less liquidity on a short-term basis. The deficit will be recovered with the levy and collection of 2006 property taxes.

May 23, 2006

To the Members of the Board
Hagar Township, Michigan

In planning and performing our audit of the financial statements of Hagar Township for the year ended March 31, 2006, we considered the Township's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements. This report contains items considered to be reportable conditions, as defined above, as well as other items we feel warrant your consideration.

Bank Reconciliations

During our audit, we noted that the bank reconciliations prepared by the treasurer are reviewed by the supervisor, but there is no indication that this review is being done. We recommend that the supervisor initial each bank reconciliation reviewed in order to document that proper internal controls are being followed.

Cash Receipts

During our audit, we noted that the treasurer is entering cash receipts into QuickBooks. According to MTA guidelines, the treasurer should not have access to the general ledger. We recommend that a summary of deposits with account number be given to the clerk to enter into QuickBooks.

Amended Budget

In review of the amended budget, we noted that the amended budget included a "savings transfer" of approximately \$25,000 in the "other revenue" line item. Since this is actually only a cash transfer (and a use of beginning fund balance), the amount should not be included in amended budget. In the budget, expenditures can exceed revenue as long as there is sufficient beginning fund balance to cover the difference.

Electronic Transfers

There was a bill passed and signed on December 31, 2002 (PA 738) that requires all local units of government to approve a resolution authorizing payments of “automated clearing house (ACH) transactions.” Beginning immediately, a local unit’s governing body must adopt a policy on ACH arrangement that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting and compliance with the ACH policy;
- A statement that this individual is required to submit documentation as follows: describe the goods or services purchased, the cost, date of payment, and the department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment.

While Hagar Township may not use electronic transfers at this time, we recommend adoption of the required policy so that it is in place when needed. We have provided the Township with a sample resolution.

State-shared Revenue and Budgeting

The State’s fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. As with the past several years, revenue-sharing payments on an individual community-by-community basis for fiscal year 2005/2006 will be funded at approximately fiscal year 2004/2005 levels.

The governor’s proposed 2006/2007 budget did not include any additional funding for local governments. As a result, it is expected that overall revenue-sharing payments to communities for fiscal year 2006/2007 will remain stagnant at the 2004/2005 level.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state-shared revenue payments. However, for fiscal years 2004/2005, 2005/2006, and 2006/2007, the appropriation in the State’s budget for revenue-sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. For those three years, revenue-sharing distributions are planned to be approximately \$1.6 billion less than amounts provided by statutory formulas. There appears to be no long-term solution to the State’s structural deficit in its General Fund and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

State-shared revenue accounts for approximately 42 percent of the Township's total General Fund revenue. The table below details state-shared revenue for the Township over the past seven years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the Township compared to the State's fiscal year 2000.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from 2000</u>
2000	\$ 23,658	\$ 278,808	\$ 302,466	\$ -
2001	39,577	257,232	296,809	5,657
2002	38,784	259,852	298,636	3,830
2003	29,703	264,253	293,956	8,510
2004	2,812	261,382	264,194	38,272
2005	-	267,619	267,619	34,847
2006	-	272,074	272,074	30,392

We will continue to update the Township as developments occur. The statutory formula expires in 2007 and requires action by the Legislature.

We would like to thank the Township for the opportunity to be of service. We especially would like to thank the Township's staff for all their help and efforts throughout the year-end audit. We would be happy to assist the Township in the matters discussed above or in any way the Township would benefit from our resources.

Plante & Moreau, PLLC